

# Arizona Corporation Commission

*Annual Report for Fiscal Year 2012–2013*



*Creating a better Arizona for investors, ratepayers and business consumers.*



## Contact the Commission

### **Main Office**

1200 West Washington  
Phoenix, AZ 85007

### **Adjunct Offices**

1300 & 1400 West Washington  
Phoenix, AZ 85007

### **Pipeline & Railroad Safety Division**

2200 North Central, Suite 300  
Phoenix, AZ 85004

### **Southern Arizona Office**

400 West Congress Street  
Tucson, AZ 85701

### **Important Phone Numbers:**

Commissioners' Wing..... 602-542-2237  
Consumer Services – Utilities.....602-542-4251  
Consumer Services – Corporations.. 602-542-3026  
Consumer Services – Securities..... 602-542-4242  
Safety Division.....602-262-5601  
Docket Control ..... 602-542-3477

Southern Arizona Office ..... 520-628-6554

Streaming audio/ video of Commission meetings:  
<http://www.azcc.gov/divisions/it/streaming/events.asp>

Listen Line for Hearing Room #1:  
602-542-0222  
(live audio of hearings/open meetings)

Toll Free Listen Line for Hearing Room #1:  
1-800-250-4525  
(applies to those in area codes 928 and 520 only)

**July 2011-December 2011**

**Gary Pierce, Chairman**

**Bob Stump, Commissioner**

**Sandra Kennedy, Commissioner**

**Paul Newman, Commissioner**

**Brenda Burns, Commissioner**

**Executive Director**

Ernest Johnson

**Administration**

Kim Battista

**Corporations**

Patricia Barfield

**Hearing**

Lyn Farmer

**Legal**

Janice Alward

**Securities**

Matt Neubert

**Utilities/ Pipeline and Railroad Safety**

Steve Olea

**Information Technology**

Clark Lathrum

## **January 2012-June 2013**

**Bob Stump, Chairman**

**Brenda Burns, Commissioner**

**Gary Pierce, Commissioner**

**Bob Burns, Commissioner**

**Susan Bitter Smith, Commissioner**

### **Executive Director**

Jodi Jerich

### **Administration**

Kim Battista

### **Corporations**

Patricia Barfield

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### **Information Technology**

Clark Lathrum



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## MISSION

*To exercise exclusive state regulatory authority over public service corporations (public utilities) in the public interest; to grant corporate status and maintain public records; to ensure the integrity of the securities marketplace; and to foster the safe operation of railroads and gas pipelines in Arizona.*

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### About the Commission

The Arizona Corporation Commission was established in the Arizona Constitution. Only seven states have constitutionally formed Commissions. Arizona is one of only 13 states with elected Commissioners. In the 37 other states, Commissioners are appointed by either the governor or the legislature.

In most states, the Commission is known as the Public Service Commission or the Public Utility Commission. However, in Arizona, in addition to the regulation of utilities, the Commission oversees the process of incorporating or registering a company to do business in the state, registers and oversees securities offerings and dealers, and enforces railroad and pipeline safety.

The Arizona Corporation Commission possesses judicial, executive, and legislative powers. It exercises its executive powers in adopting rules and regulations, its judicial powers in adjudicating grievances, and its legislative powers in setting rates.

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### Organization

Commissioners are elected by the people of Arizona for a four-year term, with the option of serving for two consecutive terms. In the case of a vacancy, the Governor appoints a Commissioner to serve until the next general election.

Ultimate responsibility for final decisions on granting or denying rate adjustments, enforcing safety and public service requirements, and approving securities matters rests with the Commission.

The administrative head of the Commission is the Executive Director who serves at the pleasure of the Commissioners. She is responsible to the Commissioners for the day to day operations of all Divisions.

The Commission staff is organized into eight Divisions. The authority and responsibilities of these Divisions is described in detail in this Annual Report. All Divisions are headed by a Division Director who reports to the Executive Director.

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## Chairman Bob Stump (2009-Present )

Chairman Bob Stump was elected to the Arizona Corporation Commission in 2008 and re-elected in 2012 with the second-highest vote tally of any Arizona Republican candidate. He represented District 9 in the Arizona House of Representatives from 2002-2008.

Stump serves on the Board of Directors of the National Association of Regulatory Commissioners (NARUC), is a member of the Harvard Electricity Policy Group, and is an Advisory Council member of the Center for Public Utilities. Stump has also served on the faculty of Law Seminars International. He is Chairman of the Board of Phoenix Opera and served on the board of the Symphony of the West Valley.

The Arizona Republic says Stump is "cerebral...a candidate with depth...energetic...intelligent, hard-working and effective...a quick study [and] a strong fiscal conservative."

The Tucson Citizen has called Stump "an innovator" who has "strong experience with public policymaking, wise perspectives on energy use [and] a commitment to pursuing fairness for Arizona residents."

Stump was also deemed one of Arizona's three "Best State Representatives" by the Arizona Capitol Times, based on a survey of Arizona's government and civic leaders. He has received over a dozen awards in recognition of his efforts to improve Arizonans' health care and protect

Arizona's taxpayers, including awards from the Alzheimer's Association, the Autism Society of America, and the March of Dimes.

Stump has a wide range of policy experience, having served as Chairman of the House Health Committee; Co-Chair of the Joint Select Committee to Investigate Operations and Conditions at the Arizona Veterans Home; Vice Chair of the Health and Rules committees; and as a member of Ways & Means, Commerce & Military Affairs, Water and Agriculture, Financial Institutions & Insurance, Education, the Interagency Council on Long-Term Care, the Interim Committee on Welfare Reform, and the House Ethics Committee.

Stump's policy proposals have made front-page news in USA Today and serve as model legislation for legislatures throughout the country. He has discussed key legislative initiatives on CNN; "Your World with Neil Cavuto," on the Fox News Channel; National Public Radio; as well as various national and international media. In 2006, Stump was a featured guest on C-SPAN's "Washington Journal" to discuss his policy ideas with a national audience.

Stump holds degrees from Harvard University, where he studied political philosophy with columnist George F. Will, and the University of California at Berkeley, where he studied philosophy and social thought, and from which he graduated with High Honors.

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## Commissioner Gary Pierce (2007- Present)

Gary Pierce was elected to the Arizona Corporation Commission (ACC) in 2006 and re-elected in 2010. He served as chairman of the ACC from January of 2011 thru December of 2012.

Pierce served as the Majority Whip of the Arizona House of Representatives from 2005 to 2006. He was a member of the Rules, Environment, and Federal Mandates and Property Rights committees. He had previously chaired the Committee on Transportation and also served on the Judiciary Committee among others. Prior to his election to the Legislature he was twice elected to the Yuma County Board of Supervisors.

The Maricopa (County) Association of Government's awarded Pierce the coveted Peak Award (Summit Award) in 2004. In their citation they state "Representative Gary Pierce was instrumental in guiding the \$15.8 billion Regional Transportation Plan through the legislative process. He sponsored House Bill 2292, which laid the framework for the planning process and formalized the Transportation Policy Committee in state law. To help legislators keep abreast of developments, Representative Pierce created the Joint Ad Hoc Committee on the Maricopa County Regional Transportation Plan, a bicameral, bipartisan committee made up of lawmakers interested in transportation issues." His leadership helped advance House Bill 2456, allowing the Maricopa County Board of Supervisors to set an election for voters to decide on a continuation of the half-cent sales tax for transportation in Maricopa County.

His record of public service includes serving on the Governor's Commission on National and Community Service from 1994 to 1997 and on the Arizona Housing Commission in 1996 and 1997.

He also served on the Maricopa County Planning and Zoning Commission and the Maricopa County Department of Transportation Advisory Board. In Yuma, he served two years on the City Board of Adjustment.

The Arizona Republican Party unanimously selected Pierce as a candidate for the Arizona Corporation Commission (ACC). He replaced ACC candidate Marc Spitzer who withdrew when he was appointed to the Federal Energy Regulatory Committee (July 2006).

### **Personal life:**

Raised in Mesa, Arizona, with a stint in Tucson; Pierce attended Emerson, Lincoln, Mesa Junior, Fickett Junior High in Tucson, and Mesa High School, graduating in 1970. A track scholarship provided an education at Mesa Community College where he graduated in 1972. Moving on to Arizona State University, he graduated in 1974 with a Bachelor's Degree in Education

For three years Pierce taught at Taft Elementary School in Mesa. A career in the automobile business followed his teaching experience, which culminated as a Honda and Nissan new car dealer in Yuma, Arizona. Concurrently with his new automobile dealerships, Pierce owned a Shell gas station and Budget Rent-A-Car franchise. Upon selling his businesses he became involved in local politics.

Pierce married Sherry (Moore), in 1973, they have four sons, three daughter in laws and soon 12 grandchildren. Gary Pierce and Sherry have deep Arizona roots. With Sherry's parents, grandparents and great grandparents born in Taylor, Shumway, Morenci and Prescott; their grandchildren are seventh generation native Arizonans.

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## Commissioner Brenda Burns (2011-Present)

Raised in a military family, Brenda Burns lived many places while growing up. In 1969 she moved to Arizona and made it her home. As an owner/manager of a family business, Brenda learned firsthand the impact which laws, rules and regulations can have on a small business' ability to succeed and create jobs.

Brenda Burns' business experience was invaluable when she began her long history of representing Arizonans. She first served in the Arizona House of Representatives from 1987 to 1995. In 1993, Republican House members elected Burns to the position of Majority Leader, making her the first woman to hold the position in Arizona.

Burns served eight years in the Arizona State Senate. In 1997, she became the first woman to hold the position of Arizona Senate President. As Senate President, Burns was instrumental in the formation and passage of the State's \$6 billion dollar budget and reduced the Senate's multimillion dollar budget by over eight percent.

A champion of taxpayers, she led successful efforts to reduce and keep taxes low for both individuals and business. Burns' persistent emphasis on protecting Arizona citizens from high taxes, high regulatory costs and excessive spending led to her recognition by the U.S. Small Business Administration as "a leader in regulatory reform".

Throughout her political career Brenda Burns worked with leaders throughout the United States. As an active member of the American Legislative

Exchange Council, she served on its board for nine years, becoming ALEC's national Chairman in 1999. There she worked with other national leaders on many issues, with a strong focus on States' Rights.

Brenda Burns lives in Scottsdale and is a licensed real estate agent. She is married to Bob Isbell. They have a combined family of six adult children and ten grandchildren.

## Commissioner Bob Burns (2013-Present)

For the past 50 years, Bob Burns has lived in Arizona and played an important role in making Arizona a better place to live, work and play. After serving as an Aviation Electronics Technician in the US Navy, Burns was honorably discharged and in 1962 moved with his wife Gayle to Arizona where he began his career at a division of General Electric which later became part of Honeywell. As a computer programming analyst, he was instrumental in writing and installing many computer software systems for plants in the steel, paper, petrochemical, fuel distribution, and electrical generation industries. As a lead programmer, he wrote and tested standardized control panel software packages for many power generation facilities.

After retiring from Honeywell, Bob Burns and Gayle became small business owners. They owned and operated several businesses, including five Elementary Preparatory Schools. The combined schools were licensed to care for five hundred students per day. After twenty seven years of operation, they sold their schools and now manage their commercial real estate properties.

In 1989, Bob Burns began his career in public service as an elected State Representative. In the House of Representatives Burns was a distinguished leader. He was Chairman of Appropriations, and served on many committees, including: Health, Judiciary, Ways and Means, Transportation, and Insurance.

In 2001, Bob Burns was elected as a member of the Central Arizona Water Conservation District Board of Directors. The Board is responsible for overseeing the management of the Central Arizona Project, a 336-mile long system of aqueducts, tunnels, pumping plants and pipelines, and is the largest single resource of renewable water supplies in the state of Arizona. It is also the largest user of electrical power in Arizona.

In 2003, Burns was elected to the Arizona State Senate, where he again distinguished himself as an outstanding leader.

Burns served as Chairman of Appropriations, and on a number of committees, including Rules, and Finance.

In 2009, Burns was elected as President of the Arizona Senate, and served as such until 2010. During the twenty years that Bob Burns served in the Legislature, he was Chairman of the Appropriations Committee for fourteen years.

While serving in the Legislature, Burns received many recognitions and awards, including:

- “Watchdog Award,” an award given by the Arizona Tax Research Association to legislators who fight for the taxpayer and target wasteful spending in government;
- “Legislator of the Year,” an award given by the American Legislative Exchange Council to state legislators who have distinguished themselves by taking a leadership role in advancing, introducing, and/or enacting policies based on principles of free markets, limited government, and individual liberty;
- “Senator of the Year,” awarded by the Arizona Chamber of Commerce;
- “Champion of the Taxpayer,” awarded by Americans for Prosperity;
- "Nations Renewable Energy Leader," Business Facilities Magazine;
- "...dedication and leadership at the Arizona Legislature," Autism Society of America.

Bob Burns’s public and community service extends beyond his substantial time in the Legislature. As an active member of the community, Burns has served on the Board of Directors for Friends of the West Valley Recreation Corridor, is a member of Arizona Town Hall, and is a member of the Glendale Kachina Rotary Club.

Bob Burns was born and raised in Rolfe, Iowa. He and Gayle have been married for 52 years, and have two sons and five grandchildren.

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## Commissioner Susan Bitter Smith (2013-Present)

Susan Bitter Smith was elected to a four year term on the Arizona Corporation Commission which began in January 2013. She is a member of the National Association of Regulatory Commissioners, the Subcommittee on Education and Research, currently serving on NARUC's Water Committee and as President-Elect of the Western region. She has served as Executive Director of the Southwest Cable Communications Association since 1980 and as Vice President of Technical Solutions since 1988. She earned both undergraduate and graduate degrees in Business Administration from Arizona State University and is a Past Chairman of the ASU Alumni Association. In addition, she serves as the Honorary Chair of the ASU MBA Alumni Association, is a Past Chairman of the Walter Cronkite Foundation, Past Chairman of the Arizona First Amendment Coalition, and is past Chairman of the Arizona Competitive Telecommunications Coalition.

Bitter Smith received her Certified Association Executive (CAE) designation in 1987 and is a Past President of the Arizona Society of Association Executives. She received AzSAE's Executive of the Year Award in 1988 and again in 1998. She is a Past Chairman of the American Society of Association Executives (first Arizonan to ever serve as Chairman), a member of the ASAE Government Relations Section Council, Past Chairman of the ASAE Government Affairs Committee, and an ASAE Fellow.

A native of Arizona, Bitter Smith served as a member of the Scottsdale City Council and was Vice Mayor. She served two six year terms as an elected member of the Central Arizona Water Conservation District Board of Directors, having served the last four as President of the Board (the first woman to hold this position) and was a candidate for Congress in Arizona's District Five. As a member of the CAWCD Board, Susan was instrumental in working with Arizona's Congressional Delegation in the successful settlement of the CAWCD Repayment Settlement dispute with the United States Department of the

Interior and the federal finalization of the Gila Indian Water Rights dispute. As President of the Board, Bitter Smith led the effort to operate the Yuma Desalting Plant with a consortium of both Federal and local players. In addition, she has led the fight to mitigate the EPA's efforts to close the Navajo Generating Station, the primary power source that operates the Central Arizona Project. She is a founding member of "Women in Water," a local group of women involved in water policy who honored Bitter Smith in December 2010 for her leadership. She has spoken to numerous water and energy groups throughout the region including the Colorado River Water User's Association, Agri-Business Council, and the Water Utility User's Association. She is currently reorganizing the Central Arizona Project Association, whose purpose is to support the success of the CAP and other water providers.

In addition, Bitter Smith was Co-Chair of Arizonans for Bush/Quayle in 1988 and 1992 and Chair of the Forbes in Arizona Campaign in 1996. She was a founder of Arizona Women in Cable and the Valley of the Sun Cable Club. In 2001, the American Society of Association Executives bestowed its highest honor, the Key Award, on her. Arizona Girl Scouts Cactus-Pine Council honored Susan with its "Advocacy" Award. Recently, the Arizona Capitol Times honored Bitter Smith and the CAWCD Board as the Public Policy Government Leaders of the Year.

Susan Bitter Smith is married and has two children. She is a frequent guest of local radio and television hosts providing commentary on local and national political issues. She is a contributing columnist to the "Arizona Republic" and has served as the co-host of the "Arizona Almanac" Radio Show.

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## **Executive Director**

### **Jodi Jerich**

Jodi Jerich began her service at the Commission in January 2013. Previously, she served for over four years as Director of the Arizona Residential Utility Consumer Office (RUCO), an agency charged with representing the interests of residential utility ratepayers in cases before the Commission.

Prior to being appointed by Governor Brewer to head up RUCO, she served as Chief of Staff of the Arizona House of Representatives. From 2004-2008, she managed House operations and its \$12 million annual budget. Jerich authorized payment of House expenditures and payroll and worked with the Speaker of the House to create a budget surplus, supervised the House's 175 employees and independent contractors including partisan and nonpartisan staff, as well as the Chief Clerk's Office and administrative personnel.

Jerich also has prior direct experience with the Arizona Corporation Commission, having served as Policy Advisor to former Commissioner Mike Gleason from 2002-2004. In this position, she became familiar with the utilities regulated by the Commission and developed a broad background in utilities regulation and energy policy.

Jerich serves on the Arizona State Governing Committee for Tax Deferred Annuities and Deferred Compensation Plan that manages approximately \$1 billion of assets for state employees' supplemental defined contribution retirement plans.

In 2013, Jerich was named as one of "The 50 Most Influential Women in Arizona Business," and also an "Arizona Business Leader" in Energy by Arizona Business Magazine.

She is a Phi Beta Kappa graduate of Indiana University, a graduate of the Indiana University Maurer School of Law, and a member of the Arizona bar.

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## **Administration Division**

**Kim Battista  
Director**

The Administration Division is composed of the elected Commissioners and their staffs, the Executive Director's office and the administrative functions that provide the fiscal and administrative services to support all divisions of the Corporation Commission. The Administrative Services Division Director oversees both the administrative and fiscal functions.

The Executive Director's staff performs many administrative functions in conjunction with the Division. These include: preparing the open meeting agendas, keeping records of all proceedings of the Commission and coordinating civic activities and projects of benefit to the Commission.

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### **Open Meetings & Other Proceedings**

The Commission meets in several types of forums. In all instances, the Arizona Open Meeting Law, the Commission's ex-parte rule on unauthorized communications, and the Arizona Administrative Procedures Act govern the activities of the Commission.

The Commission conducts formal hearings on contested matters such as rate requests, complaints and securities violations. Evidence is collected at hearings but no vote is taken. All decisions of the Commission are made in open meetings. Open meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as to obtain legal advice and personnel matters, the Commission may meet in executive session.

Hearings, open meetings, and executive sessions, while administrative in nature, are very formal in process. Comments may be received from the public, interested parties and the staff of the Commission during Open Meetings.

In addition, the Commission has staff meetings, run by the Commissioners, which are posted as Open Meetings. These meetings serve as a forum to exchange information and obtain administrative guidance and policy direction from the Commissioners. The Commission also conducts workshops in which issues are discussed. No votes are taken or decisions made at the workshops.

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### **Legislative Activities**

The Arizona Legislature enacts new laws every year that impact the Commission and the people it serves. Laws affecting regulated entities, consumers of regulated services and corporations doing business in Arizona must be monitored and, in some cases, implemented by the Commission.

Because of the Commission's broad ranging authority, the Legislative Liaison coordinates all of the Commission's legislative activities in conjunction with each division.

Additionally, the Legislative Liaison interacts with the Office of the Governor and the Legislature on Commission funding issues, including the review of our biennial budget requests and any subsequent executive or legislative recommendations.

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### **Civic Activities**

Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs.



During FY 2012-13:

- Commission employees contributed through individual donations and pledges to the State Employees Charitable Campaign, which supports United Way agencies, national health agencies, international service agencies and local unaffiliated agencies.
- Commission employees volunteered time to non-profit groups, donated blood in specially arranged blood drives held at the Commission's facilities; and
- Fully supported and actively participated in environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign, bus riding) and recycling of paper, newsprint, and aluminum cans.

Penalties and fines for violations of the Securities Act or utility regulations are required to be deposited in the General Fund and do not remain within the control of the agency.

In addition to revenue deposits, the Administrative Services Division issued 320 purchase orders, 2214 claims; received and entered 323 items into inventory; and serviced 249 employees through personnel actions and payroll transactions.

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## **Administrative Services**

The Administrative Services Division is responsible for providing all accounting, payroll, purchasing and personnel support for the Commission as well as budget preparation. The Commission's budget is developed and submitted in coordination with the Executive Director and the Directors of the divisions within the Commission. Fiscal information related to the budget and expenditures is included in Appendix A.

The Administrative Services Division is also the Commission's main point of contact with other state agencies involving business activities such as purchasing, budgeting and processing revenue.

The Administrative Services Division processes funds received by all Commission Divisions, but primarily from fees paid to the Corporations and Securities Divisions for corporate filings, securities dealer, and salesperson or agent registrations. During FY 2012-13 the Administrative Services Division received and processed nearly \$60 million in revenue to the State Treasurer.

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## Corporations Division

**Patricia L. Barfield**  
**Director**

**Mission:** *To grant corporate or limited liability company status to entities organizing under the laws of Arizona; to approve applications from foreign corporations and limited liability companies to conduct business in this state; and to maintain corporate and limited liability company records for the benefit of public record and service of process.*

The Corporations Division approves the filing of all articles of incorporation for Arizona corporations, all articles of organization for Arizona limited liability companies (LLCs), grants authority to foreign corporations and LLCs to transact business in this state, propounds interrogatories when necessary, and may administratively dissolve corporations and LLCs that do not comply with specific provisions of Arizona law.

The Division collects from every corporation an annual report, which reflects its current status and business, and maintains this information in a format conducive to public access, responds to public questions concerning Arizona corporation and LLC documents, and responds to the needs of the business sector by disseminating information to them in the most expedient manner possible.

Any significant changes to Articles of Incorporation (corporations) or Articles of Organization (LLCs) in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed with the Division. All filings are public record and are available for inspection through the Corporations Division's page on the Commission's website. Certified copies of

documents may be obtained for a nominal fee.

The Corporations Division has limited investigatory powers and no regulatory authority. Arizona corporations and LLCs, however, may be administratively dissolved if certain statutory requirements are not met. Likewise, the authority of foreign (non-Arizona) corporations or LLCs to transact business in Arizona may be revoked.

The Corporations Division is comprised of five sections (Corporate Filings, Call Center, Records, Annual Reports, Initial Processing), with each Section designed to perform specific functions. The Division also has a Tucson Office to serve the residents of Southern Arizona.

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### Overview of Activity

As of June 30, 2013, there were a total of 776,484 corporations and LLCs transacting business in the State of Arizona.

Total Corporations & LLCs.....	776,484
Annual Reports Filed.....	135,038
Total Phone Calls Handled.....	101,448

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### Corporate Filings Section

Some of the key documents processed by the Section during FY 2012-13 were as follows:

Domestic Articles of Incorporation.....	5,969
Foreign App. for Authority.....	2,027
Amendments – corporations .....	1,936
Amendments – LLCs.....	17,623
Domestic and Foreign Mergers.....	584
Domestic Articles of Organization (LLCs).....	55,305
Foreign applications for LLCs.....	2,832
Dissolutions/Withdrawals.....	2,042
LLC terminations.....	5,319

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**Call Center Section**

Call Center employees handle the vast majority of telephone inquiries regarding corporate filings. The staff researches rejected filings, assists online filers, and responds to other general filing questions.

Incoming Calls.....130,545  
Total Phone Calls Handled.....101,448

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**Annual Reports Section**

The documents processed by the Annual Reports Section during FY 2012-13 were as follows:

Annual Reports filed.....135,038  
E-submitted Annual Reports .....99,794  
Total Reinstatements.....6,372  
Notices of Pending Administrative  
Dissolution or Revocation .....39,332  
Certificates of Administrative Dissolution or  
Revocation .....16,719

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**Records Section**

The Records Section processed 32,541 records orders received by mail, fax, and over the counter during FY 2012-13. The Commission acts as an agent for Arizona corporations and LLCs whenever either entity does not maintain a statutory agent or when the agent cannot be located. In these instances, service of process directed to the entity is accepted by the Records Section on behalf of the corporation or LLC. The Records Section accepted service 2,562 times during FY 2012-13.

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**Initial Processing Section**

This Section is the beginning point of processing and examination for nearly all documents received by the Division, including Annual Reports, Amendments, Articles of Incorporation, Articles of Organization, Name Reservations, Changes, Applications for Authority to Transact Business and Applications for Authority to Conduct Affairs. The Initial Processing Section processes filing fee payments, bar codes and stamps the document, and enters information into a computerized tracking system (STARPAS). The Section then scans the documents into the Division's imaging system for subsequent review by examiners in the Annual Reports and Corporate Filing sections. The Section also prepares documents to be microfilmed.

The following payments and documents were processed by the Initial Processing Section during FY 2012-13:

Payments processed ..... 113,901  
Documents Scanned .....243,190

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## Hearing Division

**Lyn Farmer**  
**Chief Administrative Law Judge**

**Mission:** *To conduct hearings/arbitrations, analyze the evidence and draft recommended decisions for the Commissioners' consideration and approval.*

The Hearing Division exercises the Commission's authority to hold public hearings and arbitrations on matters involving the regulation of public service corporations, the sale of securities, the registration of non-municipal corporations, and the oversight of railroad crossings and pipeline safety. Under the direction of the presiding Administrative Law Judge (ALJ), proceedings are conducted on a formal basis through the taking of sworn testimony, the cross-examination of witnesses, the admission of documentary and other physical evidence, and the submission of oral arguments or post-hearing briefs.

Evidentiary and procedural rulings are made by the presiding ALJ. Rate and Certificate of Convenience and Necessity (CC&N) applications are processed under the procedural schedule established by the ALJs, in order to ensure that recommended Opinion and Orders are issued in a timely manner within the framework of the Commission's "timeclock" rules.

During FY 2012-13, the eight ALJs in the Division conducted 207 public hearings/arbitrations, and pre-hearing conferences, encompassing a total of 291

days. The ALJs also conducted 82 procedural conferences.

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding ALJ prepares a recommended order, which sets forth the pertinent facts, discusses applicable law, and proposes a resolution of the case for the Commissioners' consideration. The Commission regularly holds Open Meetings to deliberate and vote upon the recommended orders.

During FY 2012-13, the Hearing Division prepared a total of 106 recommended orders, 53 for cases involving a hearing and 53 for non-hearing matters. These recommended orders resolved rate applications, CC&N applications and extensions of CC&Ns, Securities cases, and various other matters.

While cases are pending before the Commission, the presiding ALJ may issue procedural orders to govern the preparation and conduct of the proceedings, including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 2012-13, the Hearing Division issued 424 procedural orders.

During FY 2012-13, major rate cases that were resolved included: Tucson Electric Power Company; Arizona Water Company; Pima Utility; Mohave Electric Cooperative; Navopache Electric Cooperative; Valley Utilities; Avra Water Company; Morenci Water and Electric Company; Appaloosa Water Company; Beaver Dam Water Company; Eden Water Company; Arizona Telephone Company (2 rate cases); Copper Valley Telephone; Valley Telephone

Cooperative; and Table Top Telephone Company.

Other significant cases that were resolved in FY 2012-13 include: Radical Bunny, LLC (Securities); financings for Arizona Public Service Company, Tucson Electric Company, Arizona Electric Power Cooperative, Mohave Electric Cooperative, and Trico Electric Cooperative; AT&T corporate reorganization and merger; Qwest Corp., dba CenturyLink's request to regulate retail local exchange telecom services as competitive and to deregulate certain services as non-essential; Arizona Water Company (Phase 2, DSIC); Rulemaking on Cooperative Utility Rate Case Processing; Semstream Arizona Pipeline's limited waiver of Affiliated Interest Rules; Picacho Water Improvement Corporation (emergency rates); and Tacna Water Management Company (emergency rates).

During FY 2012-2013, significant time was also invested in hearings, procedural conferences, and procedural orders related to the following cases: Graham County Utilities, Inc. (Gas Division); Vail Water Company; Rio Rico Utilities; Far West Water and Sewer; Arizona Water; and the 2013 REST dockets for APS, TEP and UNS.

The Hearing Division handled numerous proceedings related to Commission Decisions re-opened pursuant to A.R.S. § 40-252, including: Black Mountain Sewer's plant closure; Arizona Public Service Company (Line Siting Case); Bureau of Indian Affairs vs. Mohave Electric Cooperative; Montezuma Rimrock; Granite Mountain Water Company; and Great Prairie Oasis.

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The Hearing Division also conducted numerous complaint proceedings brought against utilities such as Tucson Electric Power Company; Southwest Gas Corporation; Qwest Corporation dba CenturyLink QC; Johnson Utilities; Payson Water Co.; Montezuma Rimrock Water Company; Beaver Valley Water Company; Arizona Water Company; and Global Water Resources, et. al.

The Hearing Division issued numerous recommended orders on non-hearing rate cases, financing applications, CC&N applications, railroad crossings, cases involving violations of Arizona securities law, and extensions of time to a previous Decision.

As to FY 2013-14, the Hearing Division anticipates a heavy hearing year conducting rate cases such as: Arizona Electric Power Cooperative; Southwest Transmission Cooperative; UNS Electric; Global Water Companies (7 systems); Litchfield Park Service Company (7 systems); Chaparral City Water Company; Payson Water Company; New River Utilities; Net Metering; Qwest, dba CenturyLink Request for waiver of Affiliated Interest Rules; Pipeline Safety Rules; §40-242 hearings; various railroad upgrades; and numerous securities matters.

During FY 2012-13, Docket Control continued to scan documents and final decisions from prior years into eDocket, which will enhance the ability of users to research and relevant documents.

The following public hearings were held during FY 2012-13:

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Type of Hearing	Number
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Orders to Show Cause and Complaints .....	13
Certificates of Convenience and Necessity.....	10
Rate Cases .....	48
Securities Division .....	31
Miscellaneous (oral arguments, motions to compel, etc.).....	6
CC&N Extensions.....	2
Transfers/Sales.....	3
Railroad/Pipeline Safety Group .....	5
Public Comments.....	12
Rules (new and amended).....	1
Arbitration.....	0
Generic Investigations.....	0
Deletions .....	0
Tariff.....	0
Line Extensions/Agreements .....	0
Financing.....	3
Adjudications.....	0
Line Siting .....	1
Mergers .....	1
Amend Decisions.....	3
<b>SUB TOTAL</b> .....	139
Procedural Conferences.....	88
Pre-hearing Conferences.....	68
<b>TOTAL</b> .....	295

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### **Docket Control Center**

The Docket Control Center accepts filings and maintains the official case records for the Utilities, Securities, and Safety Divisions of the Corporation Commission. In this regard, Docket Control’s functions are similar to a Clerk of the Court’s office. The Docket Control Center scans and inputs data and filed documents into the Commission’s *e-Docket*, making them available for viewing on the internet. Docket Control also assists the public and staff in retrieving the files, decisions, and transcripts of cases for use in research.

During FY 2012-13, the Docket Control Center processed the following documents:

Responses to Inquiries/ Research/Assistance.....	6,000
Filings docketed & distributed .....	7,490
<b>Opinion and Orders/Administrative Closures processed and mailed ...</b>	680
New applications input.....	452
Open Meeting items processed .....	972
Certifications .....	72
Transcripts logged & microfilmed Utilities.....	165
Securities.....	42

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## Information Technology (IT) Division

**Clark Lathrum**

**Chief Information Officer/Director**

**Mission:** *To provide accurate, efficient and timely technology design, development, implementation, communications and maintenance support services to the agency and its respective divisions in support of their missions and objectives.*

The Information Technology Division provides technology leadership, innovation, solutions, services and support for the entire Commission.

The staff is organized into four specialty areas:

- Development -- Specialists in software and computer programming, who develop, maintain and enhance the various systems used by the staff and the general public.
- Project Management – Specialists in the initiation, definition, execution, control and close-out of information technology projects.
- Support – Support Center staff troubleshoot, train and respond to requests for assistance from agency staff and the public. The Support Section also provides operational functionality and support of the Commission’s audio-visual broadcast center.
- Systems -- Personnel who focus on integrating enterprise network hardware (servers, switches, etc) and software (email, operating systems, data security, etc.).

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During Fiscal Year 2013, the IT Division continued to enhance and expand the Commission’s technology capabilities, as outlined in the following high-level overview.

- Development and testing of the new STARPLUS system continued. The STARPLUS project is a collaborative effort with the Corporations Division and to replace the current legacy incorporating application (STARPAS) and website.
- Completed the design and build-out of a new media broadcast center, which significantly increased the Commission’s media broadcast capabilities.
- Facilitated and executed the design and implementation of technology and media for the new hearing room that was built-out during the year.
- Upgraded the Commission’s business productivity suite software and provided a supporting staff training initiative.
- Upgraded the disaster recovery/business continuity (BD/DR) infrastructure resulting in a more robust and reliable BC/DR environment.

Other significant IT Division achievements of Fiscal Year 2013:

- Continued to expand and extend the use of virtual server technology to provide more efficient and cost-effective use of existing data center resources.
- Continued to upgrade and expand electronic document management services across the agency to support ongoing paper reduction efforts.
- Continued exploration and research of video conferencing technology.

- Continued to expand a business intelligence infrastructure that supports increased reporting options to agency staff and the public.
- Completed numerous infrastructure improvements such as security, network connectivity, core switch upgrade and virtual environment upgrades.
- Continuing to refine business policies and procedures to map to industry standards which enable more effective and streamlined resource allocation. As part of this effort during FY13, Team Foundation Server (TFS) was implemented to achieve better application development governance. Also the process of operational governance was started and will continue into the future.
- The IT Division is continually and aggressively focused on improvements to existing processes and applications, security, enhanced reliability of network and storage systems, increased automated network monitoring, and enhanced security practices and technology.



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## Legal Division

**Janice Alward**  
**Chief Counsel**

**Mission:** *To provide professional, high quality legal representation to the Arizona Corporation Commission; to assist in the performance of its powers and duties, except for matters pertaining to the activities of the Securities Division.*

The Legal Division represents the Commission in all matters relating to public utility regulation and in other areas not associated with the Securities Division. Securities-related cases are handled by the Securities Division. Matters handled by the Legal Division fall into five general categories:

- 1) Commission dockets;
- 2) federal regulatory dockets;
- 3) litigation;
- 4) other administrative matters;
- 5) advisory responsibilities; and
- 6) special projects.

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### Commission Dockets

Utility companies throughout the state apply to the Commission for approval before undertaking certain activities, such as the provision of service to the public, the modification of service territories, or the implementation of rate adjustments.

The Commission is authorized to exercise ongoing review over the operations of public service corporations and to act when necessary to further the public interest. Legal Division representation in these matters is varied and includes representing the Utilities Division and advising the Commissioners on legal issues. The Legal Division routinely appears on behalf of Commission Staff in a

variety of administrative proceedings, such as CC&N cases, rate cases, financing cases, and enforcement matters.

Over the past year, the Legal Division has represented Staff in a number of rate related matters for some of the State's largest water providers, including Arizona Water Company and Global Water Company. The Legal Division also represented Staff in matters related to the State's smaller water providers such as Litchfield Park Service Company, Johnson Utilities, Far West Water and Sewer Company, and Montezuma Rimrock Water Company.

The Legal Division represented Staff in a number of rate related matters for energy companies, such as Arizona Public Service Company, Tucson Electric Power Company, UNS Electric, Mohave Electric Cooperative, and Southwest Gas Corporation. The Legal Division has also assisted Staff in processing annual rate adjustments, such as purchased fuel or power mechanisms, energy efficiency plans, or renewable energy plans. And finally, the Legal Division represented Staff in Century Link's application to classify its services as competitive and to deregulate certain services as non-essential.

Occasionally, proceedings to enforce Commission rules and regulations are initiated by Staff. Over the past year, the Legal Division represented Staff in actions involving Johnson Utilities, and Brooke Utilities.

The Legal Division also represents the Commission's Safety Division in applications addressing railroad crossings.

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### Federal Dockets

The Legal Division represents the Commission before various federal agencies

in the following areas: electric, gas, energy, railroads, pipelines, and telecommunications. During FY 2012-13, the Legal Division represented the Commission in matters before the Federal Energy Regulatory Commission (FERC) concerning the gas and electric industries to ensure that the public interest of Arizona is considered in these matters. The Legal Division also represented the Commission in Federal Communication Commission (FCC) dockets, and the Environmental Protection Agency (EPA).

Key federal proceedings included:

- Participation in two El Paso Natural Gas Co. rate cases before FERC;
- Participation in a FERC case involving Arizona Public Service Company's transmission rates.
- Participation in FCC rulemaking dockets involving the Federal Universal Service Fund and Intercarrier Compensation.
- Participation in the Cholla, Coronado, Apache Generating Stations, and the Navajo Generating Station rulemaking docket regarding the Air Quality Implementation Plans.

The Commission has also been actively involved in proceedings at FERC related to the supply and interstate transmission of natural gas. Natural gas is a primary source of fuel for power plants. The Legal Division participates in cases where gas supply and transportation, as well as competing rights among states to receipt of shipped gas, are at issue.

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## Litigation

The Legal Division represents the Commission before a variety of courts and either has pending or has recently concluded cases before the Superior Court, the State Court of Appeals, and the State Supreme Court, as well as before various Federal courts.

The cases filed or pending during FY 2012-13 include the following:

- an appeal in the Maricopa County Superior Court by Sierra Club-Grand Canyon chapter challenging a Commission decision on waste-to-energy;
- Proceedings in the Coconino County Superior Court in *Adams v. Ness and Belmont Water Company*;
- *North County Communications v. Qwest, et al.*, an appeal before the Arizona District Court challenging a Commission decision;
- *Wind P1 Mortgage Borrower, LLC v. Ariz. Corp. Comm'n*, appeals in the Maricopa County Superior Court, Court of Appeals and the Arizona Supreme Court;

The Legal Division participated in continued civil litigation before the Tenth Circuit Court of Appeals, representing the Commission in a challenge to the FCC's reformed universal service and intercarrier compensation rules.

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## Administrative Matters

The Legal Division counsels the Corporation Commission in a variety of matters, such as Open Meeting Law, *ex-parte* communications,

filing requirements, public records requests, procedural issues, and other similar matters.

The Corporations Division has the responsibility for processing corporate filings, such as Articles of Incorporation, Certificates of Disclosure, and Annual Reports. These items must be submitted to the Commission by every corporation doing business within the State of Arizona. The Legal Division advises the Corporation Division on these matters.

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## Special Projects

The Legal Division participates in the enactment and revision of all Commission rules, including rules for the Corporations Division, the Utilities Division, and the Safety Division. It has also represented the Commission in litigation that has occurred following rulemakings. Rulemaking proceedings that occurred in FY 2012-2013 include revisions to the pipeline safety rules, and new rules for the processing of applications by Cooperatives.

The Legal Division has assisted with a variety of generic proceedings related to the energy industry, such as the biennial transmission assessment, the annual summer and winter preparedness workshops, and inquiries related to smart meters. Also, the Legal Division participated in the gas energy efficiency standards and meter testing and maintenance; and retail electric competition.

The major cases before the Commission usually include an advisory staff assigned to separately advise Commissioners and Commissioners' staff without violating the *ex parte* communications rule. Thus, in many instances, in addition to the need for legal staff as counsel for Utilities Division, additional Legal Division personnel are assigned to advise the Commissioners.



**Safety Division**

**Robert Marvin  
Director**

**Railroad Safety Section**

**Brian Lehman  
Supervisor**

The Railroad Safety Section enforces Federal Railroad Administration (FRA) regulations and standards relative to track, signal, motive power and equipment, railroad operating practices, and the shipment of hazardous materials by rail. The Railroad Safety Section is also responsible for enforcement of Commission regulations dealing with rail safety as well as inspection and review of industrial track and rail-highway grade crossing construction projects. In addition to its main office in Phoenix, Rail Safety inspectors are also located in the Commission's Tucson office. This staffing arrangement provides the Commission and the citizens of Arizona with the ability to respond quickly to any rail incident and for direct contact for more routine matters.

During FY 2012-13, the Section inspected 1,338 miles of track, 2,318 freight cars, 222 locomotives, 288 grade crossings, and 9 industrial track facilities. In addition, 14 incidents were investigated that involved tank cars carrying hazardous materials. The Railroad Safety Section assisted the FRA in the investigation of the 14 incidents as part of its hazardous materials inspection responsibilities. In April 2013, the Section's Operating Practices Trainee earned FRA certification, which gave the Section a certified Operating Practices inspector for the first time since 2009. During the period April through June 2013, the inspector performed 34 inspections and recommended two

violations for non-compliance of federal operating rules. Additionally, 685 signal and train control devices were inspected. The Section investigated 21 train derailments, along with 23 grade crossing accidents and 29 complaints received from other governmental agencies, railroad employees and the public. In total, the Section recommended 10 violations for prosecution of non-compliance of federal regulations.

Commission staff, in conjunction with the Federal Highway Administration (FHWA) and the Arizona Department of Transportation (ADOT), conducts an annual review of more than 700 public rail-highway crossings throughout the state and prepares a list of crossings to be considered for improvement using federal funds. From the list, the Commission publishes an array of 5-8 crossings each year. During FY 2012-13, the Commission approved 6 crossing projects for improvement using federal funds. The array is then submitted to Arizona cities, towns, and/or counties to make application for funding through ADOT to the FHWA.

Another responsibility of the Section is reviewing applications for modification to existing at-grade crossings or the creation of new at-grade crossings. Staff reviews and analyzes such crossing applications and makes recommendations to the Commissioners regarding safety requirements at the crossings. During FY 2012-13, the Commission approved 9 crossing improvement projects.

The Section is also very active in the Arizona Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing and trespasser safety. The Commission's award-winning video, "Operation Lifesaver," is widely used in the Arizona High School Driver Education and Driver Survival Programs as well as other driver safety programs around the country. During FY 2012-13, Railroad Safety Staff gave

Operation Lifesaver grade crossing safety presentations to student transportation professionals and school children in 4 Arizona public school districts.

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## **Safety Division**

### **Pipeline Safety Section**

#### **Robert Miller Supervisor**

The Pipeline Safety Section operates its main office in Phoenix and staffs offices in Tucson, Prescott and Flagstaff. Staffing offices around the state allows the section to respond immediately to pipeline incidents wherever they occur as well as to provide a local point of contact for investigations, audits and outreach opportunities.

The Pipeline Safety Section enforces pipeline safety standards and operating practices applicable to the transportation of gas and hazardous liquids by pipeline and the operation of liquefied natural gas facilities. Inspections are conducted on all interstate gas transmission and interstate hazardous liquid pipeline facilities. Inspection and operation audits are conducted on all intrastate natural gas transmission/distribution pipelines, intrastate hazardous liquid pipelines, intrastate liquefied natural gas facilities and master meter natural gas operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the utility company meter. The Pipeline Safety Section also enforces the Arizona Underground Facilities Law, otherwise known as the “Blue Stake” Law.

As a result of these responsibilities, the Pipeline Safety Section monitors the activities of 6 interstate natural gas transmission pipelines, 1 interstate hazardous liquid pipeline, 15 major intrastate gas pipeline

operations, 2 intrastate liquefied natural gas facilities, 8 intrastate gas transmission pipelines, 3 intrastate hazardous liquid pipelines and 952 master meter natural gas operations.

During FY 2012-13, the Pipeline Safety Section inspected 15 major intrastate natural gas and liquefied petroleum gas distribution pipeline operators, 8 intrastate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators, 2 intrastate liquefied natural gas operator, 1 interstate gas transmission operator, and 1 interstate hazardous liquid pipeline operator. In addition to the comprehensive inspections above, Pipeline Safety Section staff also conducted 70 specialized inspections, 22 follow-up inspections, and 10 incident investigations of major intrastate operators. The Pipeline Safety Group conducted 697 comprehensive master meter (MM) inspections, 104 specialized MM inspections, 285 follow-up MM inspections and 166 construction inspections of master meter natural gas distribution systems. In addition during FY 2012-13, the Pipeline Safety Section investigated 116 reported violations of the Underground Facilities Law, issued 85 notices of violations and collected \$29,000 in fines.

Staff also received 1407 notices of incidents from pipeline operators and the pipeline operators shut off gas service to 55 master meter gas systems requiring repair. During the fiscal year, the Pipeline Safety Section provided 15 training workshops for 249 operators of master meter gas systems and assisted master meter operator personnel by making pipe locating and leak detection equipment available to them. Staff participated in 44 Blue Stake seminars held state-wide, with 2,529 attendees.

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## Securities Division

**Matthew Neubert**  
**Director**

**Mission:** *To ensure the integrity of the securities marketplace through investigative actions as well as the registration and/or oversight of securities, securities dealers and salesmen, and investment advisers and their representatives; to enhance legitimate capital formation; and to minimize the expense of regulatory compliance on legitimate business, consistent with vigorous investor protection.*

The Securities Division reviews prospective offerings of securities to ascertain that full and fair disclosure is made to potential securities investors and that the terms of offerings are not inherently fraudulent.

Securities dealers, salesmen, investment advisers, and investment adviser representatives are required to register with the Division prior to conducting business in Arizona.

The Division reviews these applications and monitors the conduct of investment advisers, investment adviser representatives, dealers, and salesmen; investigates possible violations of the Securities Act and Investment Act; where the evidence warrants, brings administrative or civil or refers criminal actions; and conducts programs to educate investors to protect themselves.

The Division has two major sections:

- 1) Registration and Compliance
- 2) Enforcement

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## Registration & Compliance Section

Registration and Compliance reviews applications for registration and exemption filings in connection with securities transactions under the Arizona Securities Act. This Section is also responsible for the administration of the registration and licensing provisions of the Securities Act and the Investment Management Act pertaining to dealers, salesmen, investment advisers, and investment adviser representatives. Staff conducts on-site examinations of dealers and investment advisers to ensure compliance with these Acts.

The Corporation Commission is authorized to deny, suspend, or revoke a registration or license, to assess fines, and to order restitution.

During FY 2012-13 the Section processed 2,009 dealer and 173,952 salesman registrations.

In addition, the Section processed 6,525 investment adviser representative licenses and 2,159 state investment adviser licenses and federal investment adviser notice filings.

The Section conducted 75 field examinations of dealers and investment advisers.

The Section processed 24,914 applications for securities registration and notice filings, 1,348 filings for various exemptions from registration, and 2,040 name change requests during FY 2012-13.

Division duty officers responded to approximately 2,581 inquiries from the public regarding the substance of the Securities and Investment Management Acts and 1,478 inquiries regarding dealers, salesmen, investment advisers, and investment adviser representatives.

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## Enforcement Section

The Securities Division maintains an active enforcement program in order to protect the integrity of the marketplace and to preserve the investment capital formation process by investigating possible violations of the Securities Act and the Investment Management Act. During FY 2012-13, the Division initiated 15 investigations and had a total of 64 cases under investigation at year-end.

The Corporation Commission is authorized to enter cease and desist orders, to assess penalties, and to order restitution. The Commission may also apply to the Superior Court of Maricopa County for an injunction or the appointment of a conservator or receiver or to enforce Commission orders. The Corporation Commission may also transmit evidence to the Attorney General and County and United States Attorneys, who may file criminal cases.

The Securities Division makes a substantial commitment to its cases once litigation is commenced. Securities Division attorneys litigate administrative and civil cases, assisted by special investigators, legal assistants, and certified public accountants. Because of their familiarity with the facts in a case they have investigated, Enforcement staff may also assist in criminal prosecutions of cases they refer for prosecution.

During FY 2012-13, the Securities Division filed 19 administrative proceedings involving 47 respondents, and assisted state and federal law enforcement agencies in obtaining seven indictments.

During the same period, the Corporation Commission issued 30 Cease and Desist Orders against 66 respondents based on Securities Division actions. The Commission also ordered 46 respondents to pay

\$28,803,327 in restitution and 62 respondents to pay \$6,005,500 in administrative penalties. The Commission revoked or suspended two licenses or registrations.

Criminal prosecutions assisted by Securities Division staff resulted in 14 criminal convictions during this fiscal year with defendants being ordered to pay \$23,966,291 in restitution.

These administrative and civil actions resulted in money being paid into Arizona's General Fund. The Corporation Commission's funding is appropriated through the normal state budget process.

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## Investor Education

The Securities Division's investor education program features a full-time investor education coordinator who makes presentations to civic, consumer, and educational groups across Arizona. The Securities Division believes that an informed investor is the best defense against investment fraud.

In FY 2012-13, the Securities Division conducted 38 public education programs. This outreach included both communities inside Maricopa County and other communities across the state.

In addition to group presentations, the Securities Division distributes its investor educational message and materials through the Internet, press releases, newspaper articles, and printed materials available at libraries and in the public office areas of various consumer groups. Through these efforts, the Securities Division stresses to Arizonans the importance of verifying the licensure status of the promoter before they invest and of making informed investment decisions, thereby reducing the likelihood of

falling victim to unscrupulous financial professionals.

The Securities Division maintains strategic partnerships with other agencies and nonprofit organizations in order to further educational efforts. These partners include the North American Securities Administrators Association (NASAA), the U.S. Securities and Exchange Commission, the Arizona Attorney General, the Maricopa Elder Abuse Prevention Alliance (MEAPA) and the Elder Fraud Prevention Task Force.



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## Utilities Division

**Steven M. Olea**  
**Director**

**Mission:** *To recommend thoroughly-researched, sound regulatory policy and rate recommendations to the Commissioners, which are based on a balanced analysis of the benefits and impacts on all stakeholders and are consistent with the public interest.*

The Utilities Division monitors the operations of approximately 685 companies providing utility service within the State of Arizona. Article XV of the Arizona Constitution defines “public service corporations” as “those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting messages or furnishing telegraph or telephone service.” The Commission’s regulatory responsibilities are established in the Arizona Constitution (Article XV) and the Arizona Revised Statutes (§40-201, et seq.), and further defined in the Arizona Administrative Code (Title 14, Chapter 2).

One of the Utilities Division’s major responsibilities is rate review in conjunction with the determination of rates that are just, fair and reasonable to the utility’s customers and company stakeholders which will result in a reasonable return on fair value for public service corporations.

The Division reviews utility company financial records and recommends to the Commission appropriate rates and revenue requirements. With the exception of small public service corporations, these requests for rate changes are determined in an evidentiary hearing. Regardless of the size of the public service corporation, all rate changes require approval of the Commission in an open meeting.

Staff preparation for a major rate hearing begins at the time of the utility’s initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and a hearing include a review of documents on file with the Commission; an audit of the books and records of the utility; on-site inspections of plants and facilities; discussions with utility personnel and interested parties; formulation of the staff recommendation; and preparation of written testimony and schedules.

As a result of the telecommunications industry evolving from monopolies to a competitive industry, the Utilities Division has the added responsibility of providing leadership and support in the development of competitive marketplaces. The Division works with the Commissioners and all affected stakeholders to develop equitable competitive markets that will benefit all consumers of telecommunications services.

Throughout FY 2012-13, the Division devoted significant resources to the following major efforts:

- Arizona Electric Power Cooperative Rate Case
- Southwest Transmission Cooperative Rate Case
- Tucson Electric Power Rate Case
- Morenci Water and Electric Company Rate Case
- Graham County Utilities, Inc. (Gas Division) Rate Case
- Dixie-Escalante Rural Electric Association, Inc. Rate Case
- UNS Electric, Inc. Rate Case
- Mohave Electric Cooperative, Inc. Rate Case
- Arizona Water Company – Northern Group Rate Case
- Rio Rico Rate Case
- Ray Water Rate Case

- Payson Water Rate Case
- Far West Water & Sewer Rate Case
- Montezuma Rimrock Rate Case
- Global Water Utilities Rate Case
- Far West Water & Sewer Financing
- Arizona Public Service Financing
- Tucson Electric Power Financing
- Sulphur Springs Valley Electric Cooperative Financing
- Distribution System Improvement Charge (DISC)
- Review and preparation of recommendations for Tucson Electric Power Energy Efficiency and numerous other electric and natural gas energy efficiency programs
- Rulemaking Concerning the Processing of Cooperative Utility Rate Cases
- Analysis and preparation of multiple Telecom Certificates of Convenience and Necessity (CC&N)
- Participation in several transmission line siting cases
- Continued supervision of interim managers for several water companies; and
- Ongoing efforts to monitor service quality and reliability among regulated utilities

The Utilities Division consists of six sections through which the staff performs its responsibilities:

- 1) Financial & Regulatory Analysis;
- 2) Telecom & Energy;
- 3) Engineering;
- 4) Consumer Services;
- 5) Compliance & Enforcement; and
- 6) Administrative Services.

The Division oversees the following numbers of utilities:

Telecommunications companies .....	225
Water utility companies.....	357*
Sewer companies.....	62*

Water and Sewer.....	18*
Electric companies .....	16
Gas utilities .....	7

\*The Commission oversees over 400 individual water and sewer systems. Multiple systems can be operated by the same utility company.

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### Financial & Regulatory Analysis

This Section is responsible for the analysis of all financial aspects of utility company applications, including requested approvals for rate increases, mergers, debt and equity issuances, transfers of assets, purchased power and gas adjustor revisions, and applications for CC&Ns. The analysts prepare staff reports and written testimony, including financial schedules and spreadsheets, and testify in administrative hearings regarding their findings, conclusions and recommendations.

During FY 2012-13, the Section analyzed numerous large rate-related cases, as well as a number of small water company rate cases. Staff's responsibilities in analyzing a rate application include conducting a regulatory audit and developing recommendations that address various accounting issues, reasonableness of expenses, cost of capital, overall revenue requirement, rate design and, ultimately the proposed rates.

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### Telecom & Energy Section

The Telecom and Energy Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric and gas cooperatives. The section also analyzes and implements telecommunications policies adopted by the Commission. The staff uses a variety of computer models, quantitative techniques and qualitative methods in its utility evaluations

and research. Recommendations are presented to the Commissioners through staff reports, sworn testimony, memorandums and recommended orders.

The section is also responsible for analyzing and preparing Staff recommendations for the majority of electric tariff filings, special contracts, natural gas tariff filings, renewable energy programs, demand-side management programs, rulemakings, telecommunications tariff filings, proposed tariff revisions and competitive telecommunication inter-connection agreements. The section also processes applications for CC&Ns for competitive telecommunications firms.

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## Engineering Section

The Engineering Section conducts technical reviews of all Commission-regulated utilities (except gas, which is done by the Pipeline Safety Group) to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. This Section monitors and conducts on-site investigations of regulated water, wastewater (sewer), irrigation, telecommunications and electric companies. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage and consumer inquiries.

The Engineering Section assists the Consumer Services Section with the technical aspects of complaints received from utility customers. The engineers accompany Consumer Services Section personnel on investigations of such complaints. Assistance is also provided to other sections in the processing of CC&N applications for all regulated utilities. The engineers work with the Compliance and Enforcement Section to assure compliance with Commission Orders.

The Engineering Section assists the Financial & Regulatory Analysis Section in the

processing of rate case applications, financing applications and other cases. Inspections are performed to determine whether a utility plant is “used and useful.” The Engineering Section staff also conducts cost of service studies for utilities, including gas.

In the water/wastewater area, the engineers monitor the operation of over 400 individual water and sewer systems. These systems range in size from less than 10 connections to over several thousand connections. The engineering staff also assists in the processing of water main extension agreements.

The electrical engineers monitor the operation and maintenance of all generating and transmission resources within Arizona. This includes the nation’s largest nuclear plant, the Palo Verde Nuclear Generating Station, located approximately 50 miles west of Phoenix. The Engineers also support Commission representatives who serve on the Arizona Power Plant and Transmission Line Siting Committee. Engineers assist in evaluating issues related to reliability of newly-proposed generating stations and transmission lines.

The electrical engineers are responsible for preparing the Biennial Transmission Assessment Report and for reviewing the associated utility filings. The electrical engineers are also responsible for enforcement of the Overhead Power Line Safety Law.

The electrical engineers monitor and actively participate in statewide and regional organizations that impact the planning of transmission facilities and the safe, reliable operation of the bulk electric system in Arizona.

In the area of telecommunications, the Telecommunications Engineers review various telecommunications applications and utility requests for numbering resources

(waiver requests). The Telecommunications Engineers also participate in the telecommunications dockets and are responsible for addressing service quality issues.

In addition, the Engineering Section maintains a Geographic Information System (GIS) program for producing detailed utility service area maps for use by the Commission and the general public.

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### Consumer Services Section

The Consumer Services Section investigates and mediates complaints from the public regarding operation, billing, terminations, quality of service and facilities of public service corporations. The Section engaged in the following activities during FY 2012-13:

**Public Comment Meetings:** In an effort to provide consumers an opportunity to voice their concerns and opinions on proposed rate increases and the quality of service of the public utilities serving them, the Consumer Services Section conducts public comment meetings. When a public utility files an application for a rate increase, the Consumer Services Section assists in the review of the application for sufficiency. It also receives and responds to customer service problems and comments. If necessary, the Consumer Services Section organizes a public comment meeting prior to the rate hearing. These meetings have proven to be beneficial to the public utilities in establishing better communications between them and their customers. During FY 2012-13, the Consumer Services Section assisted with or held 9 public comment/town hall meetings.

**Mediation:** When the public utility and the consumer are not able to agree on the resolution of the consumer’s complaint, a representative from the Utilities Division will

conduct an independent mediation to resolve the complaint. During FY 2012-13, the Consumer Services Section conducted 32 mediations.

**Meter Testing:** The Consumer Services Section tests water meters when the accuracy of the meter reading is questioned. During FY 2012-13, the Consumer Services Section tested 41 meters.

**Field Investigations:** On-site field investigations are sometimes needed in order to resolve a dispute. These investigations may entail an inspection of the physical plant of the public utility, a review of its books and records, and verbal interaction with the customer and the public utility. Consumer Services conducted 2 field investigations in FY 2012-13.

**Opinions:** During a pending rate case, consumers are able to provide feedback to the Commission which becomes docketed with the case. During FY 2012-13, the Consumer Services Section handled 3,360 opinions.

**Complaints & Inquiries:** The following tables list the total complaints and inquiries handled by the Consumer Services Section in FY 2012-13 by utility type and complaint or inquiry type:

#### Utility Type

Communication Companies .....	844
Sewer Companies .....	97
Water Companies .....	1,033
Electric Companies .....	1,637
Gas Companies .....	1,090
TOTAL.....	4,701

#### Complaint or Inquiry Type

Billing issues.....	1,034
Deposit issues .....	111
New service issues .....	87
Service issues .....	197
Quality of service .....	571
Disconnect/termination .....	247
Repair issues.....	64
Rate case items .....	60
Rates/tariffs .....	160
Other issues .....	3,557
Misc/Non-jurisdictional .....	1,421
TOTAL .....	7,509

The second table includes all complaints and inquiries included in the first table plus miscellaneous, non-jurisdictional and other issues unrelated to utilities.

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### **Compliance & Enforcement Section**

The purpose of the Section is to ensure that utilities comply with the provisions of the Arizona Revised Statutes, Commission rules and Commission orders.

The Compliance Section is responsible for: tracking compliance relative to annual report filings, filings made pursuant to Commission rules and orders and administering the annual regulatory assessment.

During FY 2012-13, the Compliance Section reported the following compliance actions:

- 515 annual reports were mailed to utilities and monitored for filing.
- 322 new decisions were entered and tracked for compliance
- 132 utilities were required to remit an annual assessment and monitored for compliance.

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### **Administrative Services Section**

The Administrative Services Section provides general and complex administrative and clerical support to the Director’s office and the following Sections: Financial & Regulatory Analysis; Telecom & Energy; Engineering, Compliance & Enforcement and Consumer Services.

Administrative support staff provide the following services: format and process open meeting items, staff reports, testimony and correspondence; maintain various databases; process, scan and link tariff files for posting on the web; process interconnection agreements; scan monthly decisions for Division use; provide research; distribute mail and internally generated documents; and provide general customer service.

In addition, the Section maintains a multimedia library used by Commission employees. The library contains legal, technical and reference publications; federal and state documents; videos and computer programs. The library specializes in utility-related information.

Other items processed by the Administrative Services Section during FY 2012-13 include:

Staff Reports.....	87
Tariffs Administratively Approved.....	290
Testimony.....	57
Open Meeting Items.....	120
Telecom Interconnection Agreements .....	38

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## **Southern Arizona Office**

As noted in several areas of this Annual Report, the Corporation Commission maintains a southern Arizona office in Tucson at 400 West Congress Street. This office provides many of the same services as the offices in Phoenix. Sections of the Corporations and Utilities Divisions as well a Hearing Officer from the Hearing Division are located in Tucson.

Tucson Personnel assigned to the Utilities Division provided Consumer Services staffing, prepared staff input to rate cases, conducted railroad safety training and inspections as well as fulfilled pipeline safety requirements. The Hearing Officer in Tucson conducts hearings on matters of interest to residents located in Southern Arizona. In addition to holding hearings in Tucson, the Hearing Officer often travels to and conducts hearings in the Southern Arizona communities affected by the proceeding.

Not only does availability of the Tucson Office provide a convenience to southern Arizona residents, it facilitates better statewide accomplishment of Corporation Commission responsibilities.

## Appendix

Table 1

### Commission Revenue by Source

**Fiscal Resources:** Through the budget process, the Arizona Corporation Commission identifies fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission receives funding through several sources: the State General Fund, the Utility Regulation Revolving Funds, the Arts Trust Fund, the Investment Management Act Fund, the Public Access Fund and Federal grants. All sources except federal grants are subject to legislative appropriation. Beginning in FY 10, the Commissioners' Wing, and Corporations and Securities Divisions were moved from the General Fund to other funds. Only the Railroad Safety program remains on the General Fund.

The Administration Division receives funding from the Utilities Regulation Revolving Fund., the Public Access Fund, and the Securities Revolving Fund. The Corporations Division is the recipient of funding from the Arts Trust Fund and Public Access Fund. The Securities Division receives a portion of the fees it collects through the Securities Regulatory and Enforcement Fund and the Investment Management Act Fund. The Utilities Division, Pipeline and Railroad Safety Sections, and the Legal Division are funded through the Utility Regulation Revolving Fund, which derives its money from assessments on public service corporations. The federal grants are obtained as a reimbursement to the Pipeline Safety Section for fulfilling certain federal responsibilities.

Historically, the Commission has generated significantly more revenue from securities and broker registrations, corporation filing fees, fines and miscellaneous service charges than its General Fund requirements. Any revenue that exceeds the Commission's budget needs flows into the State General Fund and is used to defray the costs of state government.

<b>Commission Revenue by Source</b>	<b>Actual 2011-2012</b>	<b>Actual 2012-2013</b>	<b>Estimated 2013-2014</b>
Corporation Filing Fees*	7,349,600	7,341,900	7,300,000
Security and Broker Fees*	16,710,800	18,011,820	18,000,000
Miscellaneous Service Charges**	46,500	44,800	45,000
Fines & Forfeitures*	1,601,200	1,584,600	1,500,000
Utility Assessments	13,655,900	12,997,700	13,350,000
Sec Regulatory & Enforcement Fund	4,388,700	4,734,400	4,787,500
Sec Investment Management Act Fund	2,374,500	2,434,181	2,250,000
Public Access Fund	7,090,000	6,935,400	6,880,000
Federal Grant***	<u>1,300,900</u>	<u>1,266,100</u>	<u>1,250,000</u>
<b>TOTAL</b>	<b>54,518,100</b>	<b>55,350,901</b>	<b>55,362,500</b>

\*Deposited in the State General Fund

\*\* Deposited in the State General Fund & Utility Regulation Revolving Fund

\*\*\*Federal Grant revenue reflects amounts reimbursed to the Utility Regulation Revolving Fund and to the Pipeline Safety section's Federal Fund. Reimbursement from the Federal Government is based on calendar year, rather than the state's fiscal year, which results in fiscal year timing differences between expenditures and reimbursement revenue receipts.

Table 2

Expenditures by Budget Program

<b>Expenditures by Budget Program</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Administration & Hearings Divisions	4,971,490	5,517,146	5,921,800
Corporations Division	4,000,257	3,793,244	4,070,600
Securities Division	4,446,402	4,392,827	4,500,000
Railroad Safety Section	538,148	626,366	635,000
Pipeline Safety Section	1,673,196	1,579,374	1,645,000
Utilities Division	4,915,504	5,574,951	6,380,000
Legal Division	1,780,981	1,793,298	1,950,000
Information Technology	<u>2,602,498</u>	<u>2,921,496</u>	<u>2,484,800</u>
<b>TOTAL</b>	<b>24,928,476</b>	<b>26,198,702</b>	<b>27,587,200</b>

Table 3

Expenditures by Fund Source

<b>Expenditures by Fund Source</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
General Fund	598,737	600,665	609,700
Arts Trust Fund	51,543	50,170	50,100
Sec Regulatory & Enforcement Fund	4,381,474	4,691,841	4,787,500
Sec Investment Management Act Fund	710,450	707,533	715,400
Utility Regulation Revolving Fund	12,745,559	13,294,735	14,194,000
Public Access Fund	5,612,076	6,048,793	6,535,500
Pipeline Safety Revolving Fund	-	-	-
Federal Funds**	<u>828,637</u>	<u>804,965</u>	<u>695,000</u>
<b>TOTAL</b>	<b>24,928,476</b>	<b>26,198,702</b>	<b>27,587,200</b>

\*\*Totals reflected are actual expenditures from the Pipeline Safety Section's Federal Fund only.



Table 4

Corporation Commissioners Since Statehood

A.W. Cole	Democrat	1912-1917
W. P. Geary	Democrat	1912-1915
F. A. Jones	Democrat	1912-1919
Amos A. Betts	Democrat	1917-1933 1938-1944
David F. Johnson	Democrat	1919-1924
Loren Vaughn	Democrat	1921-1932
W. D. Claypool	Democrat	1925-1930
Charles R. Howe	Democrat	1931-1936
Wilson T. Wright	Democrat	1933-1953
John Cumnard	Democrat	1933-1934
W. M. Cox	Democrat	1935-1940
William Peterson	Democrat	1941-1946
William Eden	Democrat	1944-1947
William T. Brooks	Democrat	1947-1958
Yale McFate	Democrat	1947-1948
Mit Simms	Democrat	1949-1958
Timothy D. Parkman	Republican	1954
John H. Barry	Democrat	1955-1956
E. T. "Eddie" Williams, Jr.	Democrat	1957-1968
George F. Senner, Jr.	Democrat	1959-1962
A. P. "Jack" Buzard	Democrat	1959-1962
John P. Clark	Republican	1963-1964
Milton J. Husky	Democrat	1965-1970
Dick Herbert	Democrat	1965-1971
Charles Garland	Republican	1969-1974
Russell Williams	Republican	1970-1974
Al Faron	Republican	1970-1976
Ernest Garfield	Republican	1973-1978
Bud Tims	Republican	1975-1983
Jim Weeks	Democrat	1977-1982
Stanley Akers	Republican	1979-1980
John Ahearn	Democrat	1980-1981
Diane McCarthy	Republican	1981-1984
Richard Kimball	Democrat	1983-1985

Junius Hoffman	Democrat	1984
Marianne Jennings	Republican	1984
Sharon Megdal	Democrat	1985-1986
Renz Jennings	Democrat	1985-1999
Marcia Weeks	Democrat	1985-1996
Dale Morgan	Republican	1987-1995
Carl J. Kunasek	Republican	1995-2001
Jim Irvin	Republican	1997-2003
Tony West	Republican	1999
William “Bill” Mundell	Republican	1999-2008
Marc Spitzer	Republican	2001-2006
Mike Gleason	Republican	2003-2008
Jeff Hatch-Miller	Republican	2003-2008
Kristin Mayes	Republican	2003-2010
Barry Wong	Republican	2006
Gary Pierce	Republican	2007-present
Sandra Kennedy	Democrat	2009-2012
Paul Newman	Democrat	2009-2012
Bob Stump	Republican	2009-present
Brenda Burns	Republican	2011-present
Robert “Bob Burns	Republican	2013-present
Susan Bitter Smith	Republican	2013-present





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